

Comments Template on EIOPA-CP 11/007

Deadline
03.01.2012
12:00 CET

Draft proposal for Report on
Good Practices for Disclosure and Selling of Variable Annuities

<p>Company name:</p>	<p>ING Groep N.V. Amstelveenseweg 500 1081 KL Amsterdam ID-number: 99350791635-68 Group Public and Government Affairs Martin Boer T +32 2 547 2833; E martin.boer@ing.com</p>	
<p>About ING:</p>	<p>ING is a global financial institution of Dutch origin, offering banking, investments, life insurance and retirement services to meet the needs of a broad customer base. Going forward, we will concentrate on our position as an international retail, direct and commercial bank, while creating an optimal base for an independent future for our insurance and investment management operations.</p>	
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<p>The paragraph numbers below correspond to the questions raised in the grey boxes of EIOPA Consultation Paper No. 11/007.</p> <p>Please follow the instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ <u>Do not change the numbering in column "Reference", or any other formatting in the file.</u> ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. Please do not delete rows in the table. 		

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- ⇒ Our IT tool does not allow processing of comments which do not refer to the specific question numbers below.
- If your comment refers to multiple questions, please insert your comment at the first relevant question and mention in your comment to which other questions this also applies.

Please send the completed template to CP_007@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).

Reference	Comment	
General Comment	<p>We agree with the general direction of this report, questions raised and creating an environment that key features of the product are clearly explained. However, we wonder why the scope of this report is limited to Variable Annuities (VAs) and does not include other investment products as well. We also believe that a few items need to be clarified.</p> <p>1. Section 1.2 (Executive Summary and main findings) states that "As a consequence of increased focus on risk management, insurance undertakings have had to reflect the associated costs in the charging structure of Variable Annuity products, thus reducing the potential benefits to customers". Although this statement is factually correct, changes in market conditions over the past several years have highlighted the significant benefits that these products provide to customers. Additionally, these market movements have clarified that the benefits provided in the past were in some cases materially higher than what they should have been. In other words, many products seem to have offered benefits that were mis-priced, in favour of the customer. The new products have made an attempt to price the benefits at levels that are consistent with current market conditions. Therefore these benefits, although lower than pre-crisis levels, are actually priced consistent with current market conditions, and therefore more sustainable and at appropriate levels. Furthermore, ING's VA block in Europe is in line with Solvency II requirements. In fact, VAs are one of the first products to move in this direction.</p>	Public

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	<p>2. Section 1.5 (Executive Summary and main findings) states that "... because of their inherent complexity, variable annuities should always be sold on an advised basis, via a sales person...). The strong wording in this statement, and use of the word "always" concern us. Variable Annuities may be packaged in a simple and transparent way, so that it could be suitable for "Direct Channel" as well. Currently we do not sell VAs through Direct channel, but we can envision specific designs that may be suitable for this channel. Therefore, we suggest to change the wording to state that "unless the product passes certain simplicity and transparency tests, it should only be sold through trained agents, on an advised basis."</p>	
Q1.	<p>ING uses documents that describe key features in communicating VA products. In general, we use two sets of documents. The first document concerns the marketing brochure, which provides high-level information describing the product type and main benefits such as duration, premium, age, and type of guarantee(s). It also describes asset allocation techniques (if any), taxation, and an illustration of the product for a fictive customer (case study).</p> <p>The second document is the financial info sheet that provides more detailed information such as the main features of the product (product type, duration, minimum and maximum premium, and minimum and maximum age). It also describes the guaranteed benefits, death benefit, roll up rates, and ratchets, or any other feature that is included.</p> <p>Underlying funds, their investment objective and risk profile are also described in these documents, plus an illustration of how the guarantee works under favourable and unfavourable market circumstances. Charges are clearly described, including one-time fees, annual charges, guarantee costs, fund management fees and duration and level of surrender charges.</p>	Public
Q2.	<p>We believe it is critical to ensure a proper description of the product is provided to customers. Use of a fairly standard "key features document" by insurance undertakings would bring consistency in the disclosure of the pre-contractual information to customers. It would ensure that any reader would have a good understanding of the product, the charges, terms in relation to redemption/ maturity</p>	Public

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	and any specific risks that they should be aware of. This would also make comparisons of different choices easier, even within different Variable Annuity types. It enables the customer to consider whether the Variable Annuity would be the right product for him/ her. This could improve the level of confidence and trust customers have in financial products.	
Q3.	Yes, a FAQ document can be a useful way of presenting pre-contractual information. An alternative could be an online simulation of the product for the customer. This should then give an explanation of the key product features, the charges, terms in relation to redemption/maturity and any specific risks for the customer's specific situation. Simulations can be an effective method to enhance the customer's understanding of the product, given that providers clearly explain that simulations are used for illustrative purposes only and that they are by no means a guarantee of what the client gets. As such, the policyholder cannot derive any rights from the information obtained from the simulations.	Public
Q4.	<ol style="list-style-type: none">1. Providers distribute an annual statement of the contract to customers.2. In the majority of the countries where ING launched Variable Annuity products, the customer has daily access to his/ her funds performance.3. Customers can contact their financial advisors at any time, to request the performance of their investment.	Public
Q5.	<p>Expected results should be illustrated under favourable and unfavourable fund performance. In addition, depending on the duration of the maturity/term, insurers should be allowed to illustrate the best, worst, and most recent X (term) number of years of performance of the product.</p> <p>In particular for GMWB: favourable and unfavourable fund performance would show the value of the products well. In unfavourable market scenarios, the withdrawal benefit would still be paid out to the customer, although the Account Value could be at zero.</p>	Public

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	<p>Policyholder value should also be explained if the contract is ended prior to maturity as a consequence of full surrender under favourable and unfavourable fund performance, which may include a surrender charge.</p>	
Q6.	<p>An “unfavourable” scenario may be different in different designs. For example, in an unfavourable scenario where funds perform poorly, the guaranteed amount is paid, or in a withdrawal benefit for life, account value may go to zero, but payments continue to be paid.</p> <p>ING believes the necessity to show at least two deterministic scenarios (over-perform and under-perform), and at least three historical scenarios (best, worst and most recent X number of years) as described earlier.</p>	Public
Q7.	<p>If held to maturity, the maximum risk will be the minimum amount the customer will receive as compared to his initial investment.</p>	Public
Q8.	<p>It would provide a proper understanding of the risks assumed by the policyholder in a variable annuity contract.</p>	Public
Q9.	<p>1. Bancassurance – We work with both ING banks and third-party banks. 2. Tied Agents – Exclusively sell ING products and are trained and serviced by ING. However, they are not employed by ING. 3. Brokers – Independent Brokers who give financial advice to customers.</p>	Public
Q10.	<p>No, although given the evolution of web-based solutions, we can envisage that some of our products might be distributed online in the future. We do believe that some VAs could be sold through Direct channel, only if the product is simplified enough and fully transparent, with proper communication in place.</p>	Public

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Q11.	<p>ING strives to meet customers' needs throughout their life cycle. In order to meet these needs, it is crucial that we know the customer and fully understand their needs. ING has therefore developed a Needs Identification Document (NID) questionnaire with the following sections:</p> <ol style="list-style-type: none"> 1. Demographic data – ie. name, age, location, family status, number and age of children, occupation, field of activity, profession, etc. 2. Income/wealth data – ie. Existing savings - types and amount -; investments, properties, life insurances, loans. Personal income, household income, # of dependencies, regular expenses, available income for insurance services; official income which is the basis of all social security services: expected level of social pension, social health care, etc. 3. Financial goals and motivation – What are the clients' key financial goals and what is his motivation in achieving these goals? 4. Assessment of financial risk profile – What is the clients' risk appetite? <p>ING has embedded minimum standards to ensure our sales agents know the customer and are able to properly identify his/her financial needs.</p>	Public
Q12.	<p>We believe it does. ING only sells products and services that match the needs, risk profile, knowledge and financial situation of the customer. Moreover, it is very important to us to understand whether the customer wants a product/service primarily to cover risk or to accumulate wealth. As such, a customer-suitability form is made to document the customer's financial needs, objectives, risk tolerance, knowledge, experience and financial situation. If the customer wants to deviate from their professed risk appetite (documented through a risk profile document), they need to explicitly acknowledge this.</p>	Public
Q13.	<p>Absolutely. Customer's needs change throughout their life cycle. Consequently the products/services need to change to match these needs over time. A customer at an advanced age may require a different guaranteed benefit type than at the younger ages. These needs must be evaluated at an individual level.</p>	Public

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Q14.	<p>Before being allowed to sell, all new advisors/sales representatives should be fully trained (including possibly minimum exams), and this should be done according to local requirements and ING standards. New advisors and sales representatives should be coached and supervised at least until they have passed the minimum requirements. This is to secure and safeguard a high professional standard on customer suitability and to reduce the probability of mis-selling. At ING we adhere to all of these requirements, whether they are required regulatory wide or not.</p>	Public
Q15.	<p>Intermediaries should be trained properly on products that insurance providers offer, and should demonstrate an appropriate level of knowledge. Selling practices should also be reviewed regularly.</p> <p>Creating customer value is a key element. That is why ING is in favour of a continuous dialogue between the insurer, the distributor, the customer and the regulator. We are already doing this in a number of countries such as in the Netherlands.</p>	Public